INVADER

EXPLORATION INC.

1998
Annual Report

Corporate Profile

***Invader Exploration Inc.** is an emerging oil and gas company based in Calgary, Canada and listed for trading on the Alberta Stock Exchange (**Symbol INX**). The Company will utilize exploration and development drilling as the primary tool for growth and will focus its efforts on high impact opportunities in both the Canadian and international arenas. The management and directors of Invader have extensive technical, financial and entrepreneurial expertise and a proven track record of successful ventures.*

Invader's focus will be on natural gas exploration within the southern United States, an area with great potential for exploration success and high demand and price for the reserves found. The Arkoma Basin located in Oklahoma and Arkansas has been selected as the Company's initial exploration area. A second major exploration area in South Texas has recently been established. The Company has developed an extensive inventory of drillable prospects on Company owned lands and plan to drill a series of high potential exploration wells during the coming year.

Corporate Presentation

The participants in the Arkoma Joint Venture will hold a presentation and reception beginning at 3:00 P.M. on June 14, 1999. The presentation will be held in the McDougall Room within The 400 Hundred Club located at 710 – 4th Ave., S.W. Calgary Alberta. Shareholders and all interested parties are encouraged to attend.

The Company anticipates that an Annual and Special Meeting of the corporation will be held in July or August. All shareholders will be notified of the time and place when the final date is selected.

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President's Message to the Shareholders

Invader's goals for 1998 were to complete the assembly of a portfolio of high potential exploration prospects and to begin exploration and development drilling. We are pleased to report the results of our efforts to accomplish these goals during the past year and discuss our plans for 1999 and beyond.

1998 Year in Review

During late 1997 and the first quarter of 1998 the Company concentrated its efforts on prospect generation and land acquisition within its initial exploration area located in the Arkoma Basin in Oklahoma and Arkansas. The Company utilized its extensive geological and seismic database for prospect identification. Thirty-eight prospects were selected for evaluation and by mid 1998, over 70,000 acres of prospect specific lands were acquired.

Prospect evaluation then became the primary focus of our efforts. Fifteen of the prospects were selected and these plays were advanced to the stage where they were ready for drilling by the fall of 1998. Oil and natural gas prices and equity markets continued to deteriorate throughout 1998. These events made it difficult to raise drilling money through the equity markets or by way of private placement investment. In addition, other companies in our industry who would normally have been candidates to join in the drilling program were faced with the same lack of cash flow and capital to invest. As a result, no drilling occurred in the Arkoma program during the second half of 1998.

Fortunately for Invader, we have focused our activities in an area that will be one of the first to recover from this industry wide slow down. Natural gas prospects located in a high demand area will always be valuable. The majority of our leases have three to five years remaining on their primary term so we have a considerable amount of time to evaluate and develop the land base. The initial two exploration wells drilled in the Arkoma program were placed on stream during the second half of 1998 and cash flow from these will help to fund the operation of the program and the Tulsa exploration office.

Review of Operations

During the year the Company focused its efforts on prospect generation and lease acquisition. The Company's land base increased from approximately 30,000 gross (7,500 net) acres to over 70,000 (17,500 net) acres within the Arkoma Basin. In addition prospect lands were acquired in the new South Texas Project area and in SE Saskatchewan. The Company participated in the drilling of two (0.35 net) new pool exploration wells. Although both wells were abandoned, the Phillips #1 well drilled on the Crystal Springs Prospect in Arkansas encountered good quality reservoir rock and had significant hydrocarbon shows. Invader plans to offset this well in an up dip location during 1999.

Production from Invader's Weyburn property in S.E. Saskatchewan averaged 31 (18 net) barrels of light oil per day. Revenues were significantly reduced, as the average price received was $18.00 per barrel, a decline of 31% from the average 1997 price of $26.00. Two wells drilled in the Arkoma Basin in late 1997 were placed on stream in mid 1998. The Rott #1 performed well initially but encountered mechanical problems late in 1998. Subsequent to year end, the well was reworked and is currently averaging over 600 mcf per day (150 net). The Lewis #1 well is producing at low rates from a low permeability carbonate reservoir and will require a frac treatment to enhance production rates.

Review of Financial Results

Revenue for the year was $117,039, a decline of 25% from 1997. The majority of the reduction was related to the oil price decline. The Company's capital spending for the year was $879,000. The majority of this was allocated to the Arkoma Project, primarily for prospect generation and land acquisition. The Company had a net loss for the year of $372,411 which resulted primarily form the ceiling test write down of $255,000 on the Company's oil property in Canada. The write down reflects the price received for oil in Dec. 1998.

Outlook For 1999

The general tone of the oil and gas sector has shown considerable improvement during the first quarter of 1999. Both oil and gas prices have improved. The outlook for gas prices for this fall and for the foreseeable future is also very positive.

The Company's objective for 1999 is to develop the Company's key asset, its land and prospect inventory, and in so doing to establish significant proven reserves, production and cash flow. This will be accomplished primarily by:

- Participating directly in the drilling of a number of the lower risk, lower cost prospects. These potential wells may include one or more wells within a second focus area that the Company has established in South Texas. The Company plans to fund the drilling of these wells and the subsequent development activities through small equity issues.
- Farming out a number of the higher risk, higher cost prospects in the Arkoma Project. Two prospects have already been farmed out and will be drilled in May. Potential drilling participants are currently reviewing other prospects.

Summary

The Company has no debt, revenue flow from production that pays for corporate administration and an inventory of high quality natural gas prospects located on long-term leases. We are very optimistic about natural gas prices in the US. Increasing demand combined with natural declines and the lack of new drilling have created the potential for strong gas prices for the foreseeable future. The recent up turn in oil price along with other commodity prices has the potential to rejuvenate the small cap, resource oriented equity markets here in Canada and provide these types of companies with access to capital. We are confident that the balance of 1999 will be an exciting and profitable time for Invader and our many loyal shareholders.

The Company is currently involved in negotiations aimed at raising the capital required to fund the drilling of a number of the Arkoma and South Texas prospects. The results of these negotiations may result in a material change in the share structure of the corporation, which would require shareholder approval. We have therefore elected to delay establishing the date for our Annual Meeting until the outcome of these discussions is clarified. We anticipate that an Annual and Special Meeting of the Company will be held in July or August.

In conclusion, I would like to thank the loyal Shareholders of Invader for their continued confidence and support. Invader has a tremendous number of opportunities available and we believe the coming year will be one of continued growth for the Company.

Respectfully submitted on behalf of the Board of Directors,

C. Kathol

Conrad Kathol, P. Eng.
President and Director
May 10, 1999

Management's Report

The accompanying consolidated financial statements of Invader Exploration Inc. and all information in this Annual Report are the responsibility of management. The financial statements have been prepared by management in accordance with generally accepted accounting principles and include certain estimates that reflect management's best judgments.

Management maintains a system of internal controls that provides reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee meets periodically with management and the auditors to satisfy approval of the financial statements to the Board.

The external auditors, Davis Daignault Schick and Co., Chartered Accountants, were appointed by the shareholders and have conducted an independent examination of the financial statements. The Audit Committee, has reviewed these statements with management and the auditors, and has reported to the Board. The Board of Directors has approved the financial statements, which are contained in the Annual Report.

With regard to the year 2000 problem, we confirm that the Company has considered the expected and possible impact on the business of the 2000 and has considered, in particular, the impact on amounts and disclosures in the consolidated financial statements and any other related public information. We are satisfied, based on our evaluation, that the year 2000 problem will not have a material effect on our consolidated financial statements, nor is there, in our estimation, a material future capital outlay for the year 2000 problem that may exist in our system.

C. Kathol

Conrad P. Kathol
President
May 10, 1999

AUDITORS' REPORT

To the Shareholders of:
INVADER EXPLORATION INC.

We have audited the consolidated balance sheet of **INVADER EXPLORATION INC**. as at December 31, 1998 and 1997 and the consolidated statements of loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 1998 and 1997 and the consolidated results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

CALGARY, Alberta
March 17, 1999

DAVIS DAIGNAULT SCHICK & CO.
CHARTERED ACCOUNTANTS

INVADER EXPLORATION INC.

CONSOLIDATED BALANCE SHEET

DECEMBER 31

	1998	1997
ASSETS		
Current		
Cash	$ 118,142	$1,637,523
Accounts receivable	229,597	272,247
Deposits and prepaids	3,465	2,972
	351,204	1,912,742
Investment in private companies	49,487	10,600
Capital - Note 2	2,031,643	1,463,515
	$2,432,334	$3,386,857
LIABILITIES		
Current		
Accounts payable	$ 37,213	$ 704,849
Subscription deposits – Note 3	50,000	—
	87,213	704,849
Provision for site restoration	2,982	1,482
SHAREHOLDERS' EQUITY		
Share capital - Note 3	3,058,643	3,024,619
Deficit	(716,504)	(344,093)
	2,342,139	2,680,526
	$2,432,334	$3,386,857

Director: C. Kjathit

Director:

INVADER EXPLORATION INC.

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

FOR THE YEARS ENDED DECEMBER 31

	1998	1997
Revenue		
Oil and gas revenue net of royalties	$ 95,602	$ 138,151
Interest	21,437	16,899
	117,039	155,050
Expenses		
Well operating	62,010	47,377
General and administrative	115,060	91,096
Depletion and amortization	312,380	360,670
	489,450	499,143
Loss before income taxes	(372,411)	(344,093)
Income taxes - Note 4	—	—
Net loss for the year	(372,411)	(344,093)
Deficit, beginning of year	(344,093)	—
Deficit, end of year	$ (716,504)	$ (344,093)
Earnings per share:		
Basic	$ (0.04)	$ (0.05)
Fully diluted	$ (0.04)	$ (0.03)

INVADER EXPLORATION INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31

	1998	1997
Operating activities:		
Net loss for the year	$ (372,411)	$ (344,093)
Adjustments to reconcile income from operations to net cash provided:		
Amortization and depletion	310,880	359,188
Loss on write down of investments	18,862	—
Provision for site restoration	1,500	1,482
	(41,169)	16,577
Changes in operating assets and liabilities:		
Accounts receivable	42,650	(272,247)
Other assets	(493)	(2,972)
Accounts payable	(667,636)	704,849
Subscription deposits	50,000	—
Cash flows (used in) from operating activities	(616,648)	446,207
Investing activities:		
Purchase of capital assets	(879,008)	(1,790,896)
Investment in private companies	(57,749)	(10,600)
Cash flows used in investing activities	(936,757)	(1,801,496)
Cash flows from financing activities:		
Proceeds of share issue	34,024	2,814,619
Net (decrease) increase in cash	(1,519,381)	1,459,330
Cash, beginning of year	1,637,523	178,193
Cash, end of year	$ 118,142	$1,637,523
Cash flow per share:		
Basic	$ 0.00	$ 0.00
Fully diluted	$ 0.00	$ 0.00

Note 1: Significant accounting policies

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and reflect the following policies:

a) Basis of consolidation

These consolidated financial statements include the accounts of the company and its wholly owned subsidiary, Invader Exploration Corp.

b) Basis of presentation

The majority of the company's assets result from the activities of its wholly owned subsidiary, Invader Exploration Corp. At December 31, 1998, the subsidiary was engaged in exploration for oil and natural gas and, as such, had not attained production at commercial levels. All costs, net of revenues, are being capitalized. Realization of these assets is dependent upon the discovery of petroleum and natural gas reserves in commercial quantities.

c) Petroleum and natural gas properties

i) Capitalized costs

The company follows the full cost method of accounting for oil and gas operations, whereby all costs associated with the exploration for, and development of, oil and natural gas reserves are capitalized by cost center. Such costs include property acquisition expenditures, geological and geophysical expenses, carrying charges of non-productive properties, costs of drilling productive and non-productive wells, and plant and production equipment costs. Financing and administrative costs are capitalized only to the extent that they are directly related to capital projects. Proceeds from the sale of any interests in oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a disposition would alter the rate of depletion by at least 20%.

ii) Depletion and amortization

Depletion of oil and gas properties is calculated using the unit-of-production method based on estimated net proven reserves, as determined by the company and reviewed yearly by independent consulting engineers. Natural gas production and reserves are converted to equivalent units of measure using a relative energy content.

Amortization of other equipment is provided using the declining balance method at rates ranging from 20% to 30% per annum.

Note 1: Significant accounting policies – continued

iii) Developed properties - ceiling test

The company applies a ceiling test to the costs of developed properties to ensure that capitalized costs (net of accumulated depletion) do not exceed the estimated future net revenues from production of proven reserves less estimated future administrative, financing and income tax costs. Future net revenues are based on prices and costs prevailing at the year end.

iv) Unproved properties

The company annually reviews the capitalized costs associated with undeveloped properties to determine whether they are impaired.

When costs are not likely to be recovered, a provision for impairment is made.

Unimpaired costs associated with the acquisition and evaluation of significant unproved properties are excluded from amounts subject to the ceiling test and depletion until such time as the properties are proved.

d) Future site restoration costs

Future site restoration and reclamation costs are amortized using the unit of production method. These costs are based on management's estimates of the anticipated costs of site restoration net of expected recoveries. Removal and site restoration costs will be charged against the accumulated provision as incurred.

e) Joint ventures

Substantially all of the company's oil and gas related activities are conducted jointly with others and, accordingly, these consolidated financial statements reflect only the company's proportionate interest in such activities.

f) Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the rate of exchange in effect at the year end. Non-monetary assets and liabilities are translated at historic rates of exchange. Revenues and expenses are translated at average rates of exchange in effect during the year. Translation gains and losses are included in earnings except for unrealized gains and losses on non-monetary assets and liabilities, which are deferred and amortized to earnings over the life of the related asset or liability.

g) Investments

Long-term investments are carried at cost less permanent declines in value.

Note 1: Significant accounting policies – continued

h) Earnings and cash flow per share

Earnings per share amounts have been computed using the weighted average number of shares outstanding during the year. Fully diluted earnings per share assumes the exercise of all options and warrants.

i) Financial instruments

The company's financial instruments are comprised of cash, accounts receivable, accounts payable, accrued liabilities and subscription deposits.

i) Fair value of financial assets and liabilities

The fair values of financial instruments approximate their carrying amount due to the short term maturity or capacity for prompt liquidation.

ii) Credit risk

Virtually all of the company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

Note 2: Capital assets

i) 1998

	Cost	Accumulated Amortization	Net Book Value
Oil and gas properties	$2,694,643	$ 667,780	$2,026,863
Other equipment	7,068	2,288	4,780
	$2,701,711	$ 670,068	$2,031,643

ii) 1997

	Cost	Accumulated Amortization	Net Book Value
Oil and gas properties	$1,816,582	$ 358,407	$1,458,175
Other equipment	6,121	781	5,340
	$1,822,703	$ 359,188	$1,463,515

During the year ended December 31, 1998, the company capitalized $82,211 (1997 - $53,824) of general and administrative expenditures relating to exploration and pre-production activities.

The cost of unproved properties excluded from the depletion base as at December 31, 1998 was $1,971,838 (1997 - $1,130,957).

Note 2: Capital assets - continued

Oil and gas properties with a net book value of $nil (1997 - $278,932) have no tax basis.

Accumulated amortization includes a write-down of $255,000 resulting from the application of the ceiling test described in Note 1 c) iii).

Note 3: Share capital

a) Authorized:

Unlimited number of common shares without nominal or par value
Unlimited number of preferred shares without nominal or par value

b) Issued:

	Number of Shares	$
Common shares		
Outstanding December 31, 1996	3,100,000	$ 210,000
Transactions during 1997		
Issued for cash	1,300,000	382,500
Issued through public offering	1,800,000	1,350,000
Issued as consideration on property	1,250,600	625,300
Issued on exercise of warrants	380,000	475,000
Issued on exercise of options	246,000	184,500
Shares held for cancellation	1,134,298	—
Share issue costs	—	(202,681)
December 31, 1997	9,210,898	3,024,619
Transactions during 1998		
Shares cancelled	(1,134,298)	—
Private placement issue	80,000	40,000
Share issue costs	—	(5,976)
December 31, 1998	8,156,600	$3,058,643

c) Escrow

3,681,628 of the issued shares are subject to escrow trading restrictions.

Note 3: Share capital – continued

d) Common share purchase warrants

	Number of Warrants
Balance, December 31, 1997	100,000
Issued	80,000
Balance, December 31, 1998	180,000

Number of Warrants	Exercise Price	Expiry Date
100,000	$0.75	May 30, 1999
80,000	$0.75	December 8, 1999

e) Stock options

	Number of Options
Balance, December 31, 1997	734,060
Issued	80,000
Expired	(75,000)
Balance, December 31, 1998	739,060

As at December 31, 1998, the following 739,060 options were outstanding:

Number of Options	Price Per Share	Expiry Date
80,000	$0.45	October 9, 1999
659,060	$0.75	June 15, 2002

The 80,000 options were issued in exchange for ongoing services and contributions of an investor relations service company. The 659,060 options were issued to directors, officers and consultants of the company.

f) Subscription deposits

During the year the company received subscriptions for 100,000 units at $0.50 per unit. Each unit consists of 1 common share and 1 common share purchase warrant. Each common share purchase warrant entitles the holder to acquire 1 common share at $0.75 per share until expiry on March 5, 2000. Approval was granted by the Alberta Stock Exchange subsequent to the company's year end and the units were issued March 4, 1999.

Note 4: Income taxes

Income taxes differ from the results which would be obtained by applying the combined federal and provincial income tax rates to earnings before income taxes.

The difference results from the following:

	1998	1997
Effective tax rate	44%	44%
Computed expected tax provision	$ (163,861)	$ (151,401)
Effect on taxes of:		
Non-deductible payments	7,906	2,911
Depletion of assets without tax base	122,730	130,710
Share issue costs	(19,241)	(18,716)
Resource allowance	6,926	—
Loss carry forward benefit not recognized	45,540	36,496
	$ —	$ —

The company has incurred losses for income tax purposes of approximately $147,261 (1997 - $40,909), the related tax benefit of which has not been recorded in the financial statements. Unless sufficient taxable income is earned these losses will expire as follows:

2003	$ 4,392
2004	36,517
2005	106,352
	$ 147,261

Note 5: Segmented information

The company is involved in the acquisition, exploration, development and production of petroleum and natural gas resources in Canada and the United States of America. Assets and operations by geographic region are as follows:

	1998 Canada	1997 Canada	1998 United States	1997 United States
Revenue	$ 117,039	$ 155,050	$ —	$ —
Operating loss	(372,411)	(344,093)	—	—
Identifiable assets	266,540	1,889,604	2,165,794	1,497,253
Capital expenditures	38,127	686,784	842,365	1,104,112

Note 6: Related party transactions

Consulting fees of $15,592 were paid to a company in which the president was a sole shareholder.

Note 7: Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

CORPORATE INFORMATION

OFFICERS AND DIRECTORS

Conrad P. Kathol, P. Eng.
President, Secretary-Treasurer and Director

Robert A. McPherson, P. Eng., P. Geol.
Director

Edward S. Sampson
Director

TECHNICAL ADVISORS

Robert R. Hobbs, C.M.A.
Financial Advisor

Jean Paul Roy, P. Geoph.
Technical Advisor

HEAD OFFICE – CALGARY ALBERTA

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Email: invader@invaderexploration.com
Web Site: www.invaderexploration.com

BANKERS

Royal Bank of Canada

SOLICITOR

Collver and Trotter Barristers & Solicitors

AUDITORS

Davis, Daignault, Schick & Co.

REGISTRAR & TRANSFER AGENT

Montreal Trust Company of Canada

STOCK EXCHANGE LISTING

Alberta Stock Exchange: Symbol – INX

CORPORATE SHARE INFORMATION

Total Issued Common Shares		**8,256,600**
Warrants Outstanding	**100,000**	
Options Outstanding	**919,060**	
Fully Diluted Common Shares		**9,275,660**
Management Ownership	**> 60%**	
Current Price Range:		**$0.30 to $0.40**
52 Week:	**High $1.00**	**Low $0.30**

MANAGEMENT PROFILE

CONRAD P. KATHOL: Mr. Kathol, the President, Secretary and a Director of the Corporation, was the founder of Invader Exploration Inc. and President of the Company since inception. Mr. Kathol is a Professional Engineer with 28 years of experience in the oil and gas industry working as a geologist, engineer and in senior management. Mr. Kathol is a director of several other public companies that are involved in oil and gas and mineral development throughout the world.

EDWARD S. SAMPSON: Mr. Sampson, a founding Director of the Company, has initiated and managed a series of successful business operations focused primarily on oil and gas exploration and development over the past 23 years. Mr. Sampson is currently the Executive Chairman and a major shareholder of Niko Resources Ltd., a highly successful international exploration company with operations focused in India.

ROBERT A. McPHERSON: Mr. McPherson, a founding Director of the Company, has a doctorate degree in geology and is also a Professional Engineer with 31 years of oil and gas related experience. Mr. McPherson is the President and a major shareholder of Hampton Court Resources Inc., an Alberta Stock Exchange listed public company, which is active in international oil and gas and mineral exploration.

ROBERT R. HOBBS: Mr. Hobbs, a Financial Advisor to the Corporation, is a Certified Management Accountant who has been active in the oil and gas sector for 31 years and has extensive financial management experience. Mr. Hobbs has been involved in the formation of a number of successful public companies that are active in Canadian and international oil and gas exploration and development. He is the President of Plexus Energy Ltd. an ASE listed public company.

JEAN PAUL ROY: Mr. Roy, a Technical Advisor to the Company, is a graduate geologist and a Professional Geophysicist who has worked for 16 years on the evaluation of international exploration and field development projects. His specialties include modern seismic data acquisition and processing techniques and integrated geological and geophysical interpretation.

DAVIS, DAIGNAULT, SCHICK & CO.

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CHARTERED ACCOUNTANTS
400, 665 - 8th STREET S.W., CALGARY, ALTA. T2P 3K7

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AUDITORS' REPORT

To the Shareholders of:

INVADER EXPLORATION INC.

We have audited the consolidated balance sheet of INVADER EXPLORATION INC. as at December 31, 1997 and 1996 and the consolidated statements of loss and deficit and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the company as at December 31, 1997 and 1996 and the consolidated results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

CALGARY, Alberta
April 29, 1998

Davis, Daignault, Schick & Co.
CHARTERED ACCOUNTANTS

INVADER EXPLORATION INC.

CONSOLIDATED BALANCE SHEET

DECEMBER 31

	1997	1996
ASSETS		
Current		
Cash	$1,623,218	$ 178,193
Accounts receivable	274,646	—
Other	14,878	—
	1,912,742	178,193
Investment in private companies	10,600	—
Capital - Note 2	1,463,515	31,807
	$3,386,857	$ 210,000
LIABILITIES		
Current		
Accounts payable	$ 704,849	$ —
Provision for site restoration	1,482	—
SHAREHOLDERS' EQUITY		
Share capital - Note 3	3,024,619	210,000
Deficit	(344,093)	—
	2,680,526	210,000
	$3,386,857	$ 210,000

Director: C. Kathol

Director: Robert A McPherson

INVADER EXPLORATION INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31

	1997	1996
Cash was provided by (used for):		
Operating activities:		
Net loss for the year	$ (344,093)	$ —
Items not requiring a current cash outlay:		
Amortization and depletion	359,188	—
Provision for site restoration	1,482	—
	16,577	—
Changes in non-cash working capital balances:		
Accounts receivable	(274,646)	—
Other assets	(14,878)	—
Accounts payable	704,849	—
	431,902	—
Investing activities:		
Purchase of capital assets	(1,790,896)	(31,807)
Investment in private companies	(10,600)	—
	(1,801,496)	(31,807)
Financing activities:		
Proceeds of share issue	2,814,619	210,000
Increase in cash	1,445,025	178,193
Cash, beginning of year	178,193	—
Cash, end of year	$1,623,218	$ 178,193
Cash flow per share:		
Basic	$ 0.0024	$ —
Fully diluted	$ 0.0017	$ —

INVADER EXPLORATION INC.

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

FOR THE YEARS ENDED DECEMBER 31

	1997	1996
Revenue		
Oil and gas revenue net of royalties	$ 138,151	$ —
Interest	16,899	—
	155,050	—
Expenses		
Well operating	47,377	—
General and administrative	91,096	—
Depletion and amortization	360,670	—
	499,143	—
Loss before income taxes	(344,093)	—
Income taxes - Note 4	—	—
Net loss for the period and deficit, end of year	$ (344,093)	$ —
Earnings per share:		
Basic	$ (0.0496)	$ —
Fully diluted	$ (0.0343)	$ —

INVADER EXPLORATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1997 AND DECEMBER 31, 1996

Note 1: Significant accounting policies

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and reflect the following policies:

a) Basis of consolidation

These consolidated financial statements include the accounts of the company and its wholly owned subsidiary, Invader Exploration Corp.

b) Petroleum and natural gas properties

i) Capitalized costs

The company follows the full cost method of accounting for oil and gas operations, whereby all costs associated with the exploration for, and development of, oil and natural gas reserves are capitalized by cost centre. Such costs include property acquisition expenditures, geological and geophysical expenses, carrying charges of non-productive properties, costs of drilling productive and non-productive wells, and plant and production equipment costs. Financing and administrative costs are capitalized only to the extent that they are directly related to capital projects. Proceeds from the sale of any interests in oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a disposition would alter the rate of depletion by at least 20%.

ii) Depletion and amortization

Depletion of oil and gas properties is calculated using the unit-of-production method based on estimated net proven reserves, as determined by the company and reviewed yearly by independent consulting engineers. Natural gas production and reserves are converted to equivalent units of measure using a relative energy content.

Amortization of other equipment is provided using the declining balance method at rates ranging from 20% to 30% per annum.

iii) Developed properties - ceiling test

The company applies a ceiling test to the costs of developed properties to ensure that capitalized costs (net of accumulated depletion) do not exceed the estimated future net revenues from production of proven reserves less estimated future administrative, financing and income tax costs. Future net revenues are based on prices and costs prevailing at the year end.

Note 1: Significant accounting policies - continued

iv) Unproved properties

The company annually reviews the capitalized costs associated with undeveloped properties to determine whether they are impaired.

When costs are not likely to be recovered, a provision for impairment is made.

Unimpaired costs associated with the acquisition and evaluation of significant unproved properties are excluded from amounts subject to depletion until such time as the properties are proved.

c) Future site restoration costs

Future site restoration and reclamation costs are amortized using the unit of production method. These costs are based on management's estimates of the anticipated costs of site restoration net of expected recoveries. Removal and site restoration costs will be charged against the accumulated provision as incurred.

d) Joint ventures

Substantially all of the company's oil and gas related activities are conducted jointly with others and, accordingly, these consolidated financial statements reflect only the company's proportionate interest in such activities.

e) Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the rate of exchange in effect at the year end. Non-monetary assets and liabilities are translated at historic rates of exchange. Revenues and expenses are translated at average rates of exchange in effect during the year. Translation gains and losses are included in earnings except for unrealized gains and losses on non-monetary assets and liabilities which are deferred and amortized to earnings over the life of the related asset or liability.

f) Investments

Long-term investments are carried at cost less permanent declines in value.

g) Financial instruments

The company's financial instruments consist of cash and short term investments, accounts receivable, accounts payables and accrued liabilities. The carrying amounts of these financial instruments approximate their fair value due to their short term maturity or capacity of prompt liquidation. It is not practical to estimate the fair value of the portfolio of investments as they are not publically traded. The investments are carried at their original cost of $10,600.

Note 2: Capital assets

i) 1997

	Cost	Accumulated Amortization	Net Book Value
Oil and gas properties	$1,816,582	$ 358,407	$1,458,175
Other equipment	6,121	781	5,340
	$1,822,703	$ 359,188	$1,463,515

ii) 1996

	Cost	Accumulated Amortization	Net Book Value
Oil and gas properties	$ 31,197	$ —	$ 31,197
Other equipment	610	—	610
	$ 31,807	$ —	$ 31,807

During the year ended December 31, 1997, the company capitalized $67,403 (1996 - $nil) of general and administrative expenditures relating to exploration and pre-production activities.

The cost of unproved properties excluded from the depletion base as at December 31, 1997 was $1,130,957 (1996 - $26,846).

Oil and gas properties with a net book value of $278,932 (1996 - $nil) have no tax basis.

Accumulated amortization includes a write-down of $248,000 resulting from the application of the ceiling test described in Note 1 b) iii).

Note 3: Share capital

a) Authorized:

- Unlimited number of common shares without nominal or par value
- Unlimited number of preferred shares without nominal or par value

Note 3: Share capital - continued

b) Issued:

	Number of Shares	$
Common shares		
Transactions during 1996		
Issued for cash	3,100,000	$ 220,001
Share issue costs	—	(10,001)
December 31, 1996	3,100,000	210,000
Transactions during 1997		
Issued for cash	1,300,000	382,500
Issued through public offering	1,800,000	1,350,000
Issued as consideration on property (see note below)	1,250,600	625,300
Issued on exercise of warrants	380,000	475,000
Issued on exercise of options	246,000	184,500
Shares held for cancellation	1,134,298	—
	9,210,898	3,227,300
Share issue costs		(202,681)
December 31, 1997		$3,024,619

c) Acquisition of property

The company acquired petroleum and gas properties from a company, in which a director of the corporation is the controlling shareholder, for a total consideration of $625,300 which was satisfied by the issuance from treasury of 1,250,600 common shares.

d) Escrow

4,331,325 of the issued shares are subject to escrow trading restrictions.

Note 3: Share capital - continued

e) Stock options

	Number of Options
Balance, December 31, 1996	—
Issued	980,060
Exercised	(246,000)
Balance, December 31, 1997	734,060

As at December 31, 1997, the following 734,060 options were outstanding:

Number of Options	Price Per Share	Expiry Date
75,000	$1.45	October 9, 1998
659,060	$0.75	June 15, 2002

The 75,000 options were issued in exchange for ongoing services and contributions of an investor relations service company. The 659,060 options were issued to directors, officers and consultants of the company.

f) Warrants

	Number of Warrants
Balance, December 31, 1996	—
Issued	1,900,000
Exercised	(380,000)
Expired	(1,420,000)
Balance, December 31, 1997	100,000

During the year 100,000 warrants were issued in exchange for seismic data relating to land in the Arkana Basin. As at December 31, 1997, the following warrants were outstanding:

Number of Shares	Price Per Share	Expiry Date
100,000	$1.45	October 9, 1998

Note 4: Income taxes

Income taxes differ from the results which would be obtained by applying the combined federal and provincial income tax rates to earnings before income taxes.

The difference results from the following:

	1997	1996
Effective tax rate	44%	44%
Computed expected tax provision	$ (151,401)	$ —
Effect on taxes of:		
Non-deductible payments	2,911	—
Depletion of assets without tax base	130,710	—
Share issue costs	(18,716)	—
Loss carry forward benefit not recognized	36,496	—
	$ —	$ —

The company has incurred losses for income tax purposes of approximately $36,517 (1996 - $4,392), the related tax benefit of which has not been recorded in the financial statements. Unless sufficient taxable income is earned these losses will expire between 2003 and 2004.

Note 5: Segmented information

The company is involved in the acquisition, exploration, development and production of petroleum and natural gas resources in Canada and the United States of America. Assets and operations by geographic region are as follows:

	1997 Canada	1996 Canada	1997 United States	1996 United States
Revenue	$ 155,050	$ —	$ —	$ —
Operating (loss) income	(344,093)	—	—	—
Identifiable assets	1,889,604	33,590	1,497,253	176,410
Capital expenditures	686,784	4,962	1,104,112	26,845

Note 6: Investment in joint venture

During 1996 the company entered into a joint venture agreement whereby it will participate in the acquisition of and exploration for oil and natural gas properties in the United States of America. As at December 31, the company's proportionate share of the joint venture's assets and liabilities was as follows:

	1997	1996
Cash	$ 124,173	$ 149,565
Accounts receivable	226,531	—
Other assets	14,878	—
Oil and gas properties	68,849	26,845
Accounts payable	(434,431)	—

Note 7: Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.